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Winning in the Aftermarket

Key ideas from the [Harvard Business Review](#) article By Morris A. Cohen, Narendra Agrawal, Vipul Agrawal

The Idea in Brief

In many industries--automotive, consumer electronics, home appliances--the after-sales service market has ballooned to four to five times the size of the original equipment business. And the aftermarket is a high-margin cash cow: in 2001 alone, GM earned more money from \$9 billion of after-sales revenues than it did from \$150 billion of income from vehicle sales.

Despite these juicy numbers, most organizations squander the aftermarket's potential. Why? After-sales support is notoriously difficult to manage, compared to manufacture of products. For example, it's hard to deliver technical support efficiently because demands for repairs don't adhere to planned schedules. And only those companies that manage the aftermarket skillfully make money from it.

How to extract profits from the aftermarket? As Cohen, Agrawal, and Agrawal recommend, treat your service promises not as costs of doing business but as revenue-generating **products** that you design, price, produce, and deliver to customers. Design a **portfolio** of service products that meets different customers' needs, some for speed, some for economy. And create a distinctive **post-sales supply chain**--one that delivers the people (technicians, call-center staff), parts, and infrastructure (information systems, transportation) needed to provide stellar service.

Matching rivals in product performance and price only gets you into the game. Your aftermarket prowess *wins* you the game--in the form of soaring profits and stock price, and enduring customer loyalty.

The Idea in Practice

To win in the aftermarket, Cohen, Agrawal, and Agrawal recommend these steps:

Choose Which Products You'll Support

Will you service some or all of the products you make? Will you service complementary and competing products as well as your own? Consider servicing products you don't manufacture only if 1) similar assets and skills are required, 2) customers really want one-stop servicing, and 3) doing so doesn't risk diluting your brand.

Design Your Products Portfolio

Create a variety of service products that meet customers' needs *and* willingness to pay. Offer products ranging from fast and expensive ("platinum services") to slow and economical ("silver services").

Pick Your Business Model

Support your service products with the right business model. For example, when consumers can tolerate some level of product failure (a flat tire or a faulty air conditioner) use a conventional model in which the customer owns the product and pays for support services as needed. When product performance is critical, consider a business model where customers lease products and are guaranteed performance through immediate onsite replacement or repair. Many commercial airlines use this model, paying an hourly fee to GE or Rolls-Royce for using aircraft engines instead of buying them.

Determine Organizational Structures

In many companies, the manufacturing and services functions bicker over which is responsible for inventory carrying costs. Eradicate infighting by establishing joint services-manufacturing teams who set priorities for the use of parts by manufacturing, by the services function for warranty servicing, and for out-of-warranty services. Consider outsourcing the delivery of after-sales services to a third-party provider.

Create Your Post-Sales Supply Chain

Establish different supply chains for different types of service products. For example, when speedy service is essential, replace failed products with reserve products pre-positioned at each customer's site. If low cost is more important than speed, use a centralized repair facility to diagnose product malfunctions and replace only components that have failed.

Also establish prioritization rules for customers. For instance, when spare parts inventory is low, hold it in reserve for higher-paying customers, requiring lower-paying customers to wait until inventory is replenished.

Monitor Performance

Measure your aftermarket performance using customer-focused metrics (wait time for technical assistance and diagnosis, spare-parts delivery time) *and* internally focused metrics (such as parts obsolescence cost) to quantify the utilization of your service assets.

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Further Reading

Articles

Lean Consumption

Harvard Business Review

March 2005

by James P. Womack and Daniel T. Jones

Many companies view after-sales service as a necessary evil--so they offload as much of it as they can to customers. In this article, Womack and Jones demonstrate how to deliver after-sales service in ways that satisfy customers, generate more revenue--and minimize costs. The key? Providing exactly *what* customers want, *where* they want it, and *when* they want. For example, auto dealer GFS prediagnoses vehicle problems by phone and firms up diagnoses when cars arrive. Customers can authorize repair work immediately, avoiding additional phone calls. GFS also schedules arrivals to eliminate queues, and bundles parts and tools into kits delivered to technicians as needed. Customers spend less time waiting; repairs get done faster with fewer errors. Everyone wins.

Best Face Forward

Harvard Business Review

January 2006

by Jeffrey F. Rayport and Bernard J. Jaworski

To provide effective and profitable after-sales services, you need the right customer interface system. In numerous companies, too many interfaces--retail sales clerks, Web sites, voice-response phone systems--work at cross-purposes, with insufficient coordination. Results? Rising complexity and costs--and mounting customer dissatisfaction. The authors explain how to configure your interface system's many components for optimal efficiency *and* effectiveness. Most important, know what people do best, what machines do best, and how to deploy them separately and together. Armed with this knowledge, you enhance the quality of your after-sales service, build your credibility--and drive top-line growth through increased customer value.

About the Authors

Morris A. Cohen is the Panasonic Professor of Manufacturing and Logistics at the University of Pennsylvania's Wharton School and a cofounder and the chairman of MCA Solutions, an after-sales services supply chain software company based in Philadelphia.

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